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Stabilized Milk Markets

The Goal of the Dairy Industry



U.S. Department of
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Dairying

is the most important agricultural enterprise in the United States. Almost one-fifth of the entire gross income from farm production in this country is derived from milk and its products. No other single crop or livestock product makes up so great a portion of the Nation's total gross agricultural income.

More than 4,000,000 of the Nation's 6,000,000 farmers produce milk. These producers are widely scattered throughout the country.

Because milk is produced every day in the year, and because it is a highly perishable product, milk producers must be assured of a market for all of their milk every day in the year.



Stabilized Milk Markets

The Goal of The Dairy Industry

STABILIZED conditions under which milk producers could sell their product have been the goal of the dairy industry ever since milk distribution became a highly specialized enterprise upon which dairymen must depend for an outlet to consumers.

At first, dairymen tried through their own efforts to reach this goal of a reasonable price and assurance to each producer of his fair share of the market. Then new factors came into the economic picture of the dairy industry. Milk producers realized that their efforts had to be supplemented. Today, State milk control boards and Federal milk marketing agencies operating under the Agricultural Adjustment Act are assisting dairymen in their own steps toward improved selling conditions.

The history of present-day milk marketing records the development of milk distributing agencies as an integral part of the dairy industry and reveals the efforts exerted by producers to adjust themselves to the new marketing conditions.

When the milk distributing agencies came into the marketing field and replaced the farmer-to-consumer method of

selling milk, producers found themselves at a disadvantage. Dairymen found the distributors in a dominant bargaining position where they could play milk producers against one another. To meet this situation, the dairymen formed bargaining cooperatives through which they negotiated with distributors for a price for their product. Thus, bargaining between farmers on one hand and the distributors on the other became the typical pattern in the dairy industry.

As a result of their efforts toward organized selling, dairymen were able to enjoy a marked degree of stability in milk marketing. Experience has shown that a majority of the milk producers and distributors always has been in favor of a constructive milk marketing program. But, in spite of the approval of the majority, time and again small minorities have been able during critical periods to destroy the stabilized market structure which had been built up through the cooperative effort of the interested groups.

The differences between majority and minority groups in the milk marketing field came to a head during the recent



depression. Reduced consumer purchasing power had lowered the demand for milk, while production continued at high levels.

Unwarranted price cutting, extended price wars, and other forms of destructive competition arose out of depression factors and brought chaotic conditions to many milk markets. These conditions threatened ultimately to result in a shortage of fluid milk, since some producers, whose milk was needed to supply the normal fluid milk market, would have been forced out of business.

Producer groups established to sell the product of their members in an orderly manner were no longer able to maintain an orderly market situation. Under more normal conditions they had been quite effective in looking after the interests of the producers who constituted their membership. But, against forces greatly aggravated by depression these organizations found it extremely difficult to perform effectively their accustomed function in maintaining orderly marketing processes.

Dairymen Supplement Own Efforts

Dairymen themselves soon realized that such chaotic marketing conditions could not continue. The leaders of the industry concluded that some additional

device to aid in determining market prices was needed

They looked to government for this device.

The result was the enactment by States of milk-control legislation, which set up State milk-control boards, and the inclusion of milk and its products as a basic commodity under the Agricultural Adjustment Act.

Agreements and Orders

Under the provisions of the Agricultural Adjustment Act, the Secretary of Agriculture is empowered to enter into marketing agreements with processors, producers, associations of producers, and others engaged in the handling of agricultural products. In addition, he is authorized to issue orders applicable to these handlers. The terms of these orders are specifically limited by the provisions of the Act.

The Act limits the application of marketing agreements and orders to such handling as is in the current of interstate or foreign commerce, or as directly burdens, obstructs, or affects interstate or foreign commerce.

Producer Approval Necessary

A marketing agreement for milk usually is accompanied by an order which regulates the handling of milk in the marketing area in the same manner as does the marketing agreement. Handlers of at least 50 percent of the volume in the marketing area must have signed the agreement, and two-thirds by number or volume of the producers must have approved issuance of the order, before an order can be issued. However, if handlers of 50 percent of the volume of milk in a marketing area do not sign the

agreement, orders may be put into effect with the approval of the President:

1. If this action is favored by two-thirds of the milk producers by number or volume.
2. If the noncompliance of the handlers would tend to prevent achieving the purpose of the Agricultural Adjustment Act.
3. If such action is the only practical means to advance the interest of the producers.

Provide Marketing Plan

Marketing agreements and orders are issued only after due notice and opportunity for a hearing. The agreements and orders provide for a marketing plan applicable to the sales area concerned. The provisions of an agreement and order are administered by a market administrator.

Under the provisions of the Agricultural Adjustment Act, a milk marketing agreement and order in a sales area cannot "prohibit, or in any manner limit, in the case of the products of milk, the marketing in that area of any milk or products thereof produced in any production area in the United States."

Seek Higher Returns

The general objective is to stabilize conditions under which dairymen can sell their product, and also increase returns to producers. Essentially, this is the same objective which cooperative milk marketing associations have entertained ever since their organization.

One of the chief aims of a milk marketing agreement and order is to increase the income of the producers who supply the milk market. The Agricultural Adjustment Act provides that under a marketing agreement and order, distributors who buy milk from producers must pay,

as a minimum, a stipulated price according to the use to which the milk is put. This price may be changed under the provisions of the plan as milk supply and demand conditions warrant.

Use Classifications

Milk sold for fluid consumption, generally designated as Class 1 milk, usually costs more to produce and bring to market than milk produced for use in other forms; hence usually carries the highest market value. Milk in excess of the Class 1 or fluid requirements of the market, may be sold in the form of cream. This portion of the milk used for cream, although in some cases as costly to produce as milk produced for use as fluid milk, generally is brought to market as cream at lower cost than if it were brought to the market as milk, hence it usually commands a lower f. o. b. market value than Class 1 milk, and generally is designated as Class 2 milk. Milk in excess of Class 1 and Class 2 needs of the market is sold in the form of manufactured dairy products such as ice cream, evaporated milk, butter, cheese, etc., the prices of which are determined by national supply and demand conditions, hence the prices set for excess milk are related directly to the market price of manufactured dairy products, usually butter. Such



milk is designated under other classes, depending upon the number of use classifications in the market.

The establishment of a price which producers must receive for their product gives recognition to the fact that milk markets are stabilized only when the cost of milk is uniform among all distributors. Uniform buying prices for a commodity like milk tend to improve competitive relations in the marketing area. It is a major step toward the protection of farmers' markets against chaotic and drastically reduced prices, and tends generally toward the maintenance of farmers' prices on as high a level as is consistent with prevailing supply and demand conditions.

Interests of Producers Guarded

In addition to strengthening farmers' prices for milk, other supplementary means may be employed to increase the income of the dairymen supplying a milk marketing area. This may be accomplished through elimination of freight rate over-charges, or questionable country station and terminal charges, if they exist; producers of the producers against failure or neglect of distributors to pay them for milk; checking tests and weights of milk sold to distributors; verifying the accuracy of payments made to producers, and prohibiting unfair competition and unfair trade practices.

The Agricultural Adjustment Act specifically requires that producers shall express their views on whether a milk

marketing program shall become operative in a sales area in which they sell their product. The Act also provides a definite place for the producers' cooperative marketing associations in rendering services for advancing the interests of member-producers.

Returns Prorated

Proper prorating among producers of the proceeds from sales to distributors is another objective of milk marketing agreements and orders. This is accomplished by pooling producers' sales, either through a market-wide pool or an individual distributor pool, depending upon the choice of the dairymen in the area. These methods are provided for in the Agricultural Adjustment Act.

Under the market-wide pool plan, the total quantity of milk sold by all producers to all distributors in the market is pooled, and each producer is paid according to the amount of milk he has sold, regardless of the use made of this milk by the individual distributor to whom it was sold.

The rate of payment is based upon the proceeds from the sale of all milk, for all purposes, by all distributors on the market. The same level of prices is thus established for all producers supplying the market as a whole.

The pool is computed from reports for each delivery period which distributors are required to make to the market administrator's office.

In accordance with the terms of the Agricultural Adjustment Act, the market-wide pool plan may be incorporated



in an agreement or order which requires the approval of two-thirds of the producers by number or volume. If the individual distributor pool plan is incorporated in an agreement and order, three-fourths of the producers by number or volume must approve this provision of the order.

Under the individual distributor pool plan, the total volume of milk sold to an individual distributor by the producers who supply him is pooled. Thus, each distributor has his own pool. Through the individual distributor pool plan, the burden of carrying surplus is equalized among all of the producers who supply a given distributor with milk. All of the producers selling to one distributor receive the same pool price, but this price may be higher or lower than the pool prices of other distributors, depending upon the uses of the milk handled by the individual distributors. The market administrator computes each distributor's pool price from delivery period reports submitted to him. Each distributor is informed of his pool price by the market administrator. The pool price of each distributor in the market is publicly announced by the market administrator.

Equitable Sharing

Under either pool plan, the Act provides for appropriate methods for equitable apportionment among dairymen of the Class 1 and Class 2 milk market as well as the burden of excess milk in the market. Under this each producer

is assured his fair share of the market for milk sold in the sales area. Each producer is given an allotment which represents the portion of his production that will be paid for at the price representing the weighted average value of milk other than excess milk. A new producer may sell milk in the sales area providing that during his first two months in the market payments to him be at the established price for the lowest use-classification of milk sold in the market.

Coordination With States

Governors of several States, representatives of State milk control boards, and milk producers have squarely faced their local dairy problems only to find that, working alone and independently, they cannot cope with the innumerable problems which arise because of the interstate character of portions of the dairy industry. As a result, they came to the conclusion that coordination of milk control activities between States and the Federal Government was essential for effective handling of these problems. Congress provided for a specific provision in the Agricultural Adjustment Act which makes this coordination possible.

The Agricultural Adjustment Act makes it possible for the Secretary of Agriculture to work with the duly constituted authorities of any

State in efforts to obtain uniformity and the formulation, administration, and enforcement of Federal and State milk programs. The Secretary of Agriculture



may confer with, and hold joint hearings with, State milk control officials, and he may accept and utilize, with the consent of the State, such State and local officers and employees as may be necessary, and he may avail himself of the records and facilities of State authorities. Subject to certain provisions of the Agricultural Adjustment Act, the Secretary of Agriculture may issue orders complementary to orders or other regulations issued by State milk

control authorities. Records and facilities of the Department of Agriculture may be made available to the State authorities.

The plan of operation outlined by Congress is not designed to interfere with, or replace, or confuse, orders and programs of State milk control boards but, where possible, it is designed to coordinate the activities of State authorities insofar as interstate relationships are concerned.

